

# *The* MANAGEMENT REVIEW

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# *The* MANAGEMENT REVIEW

*November, 1933*

## **The Individual Company's Responsibilities Under the Codes**

*By R. H. ROSITZKE*

**T**HE problems confronting executives in carrying out their particular provisions will vary according to the fundamental control principles involved in their industry's code, their past merchandising and plant policies and the strength of their trade association executives. The codes are similar in principle as to the labor provisions, namely minimum wages, maximum hours and collective bargaining. However, when it comes to the rules governing fair competition there are decided differences in the principles followed for trade regulation and control. The fundamental premises incorporated in codes may briefly be classified as:

1. Merchandise shall not be sold below cost. Prices must cover cost.
2. The control of production through allocation of definite percentages of shipments to constituent members will automatically increase prices through eliminating the price reduction pressure of excessive inventories and over-production.
3. The curtailment of technical advancement, the control of equipment and capital improvements will restrict producing facilities which in turn will stabilize production and prices.
4. Definite price schedules directly controlled by the trade association executive based on fairly high costs with a very strict definition of trading terms as to financing, deliveries, specifications.
5. Some codes vaguely hint at practices of fair competition without definitely indicating any means for making such measures effective.

The object of the publications of the American Management Association is to place before the members ideas which it is hoped may prove interesting and informative, but the Association does not stand sponsor for views expressed by authors in articles issued in or as its publications.

From this broad summarization one can readily visualize the many differences in problems faced by various members of different associations and the pitfalls encountered in attempting to obtain quick relief. Various executives operating under codes that state goods shall not be sold below costs, are bewildered. Their questions are usually:

1. What shall I consider a normal rate of activity in calculating prices?
2. Will my competitor use the same normals?
3. Must I divulge my operating information to all members?
4. Will the other fellow do the same and if so how will I be assured that competition will use the same methods in arriving at selling prices?

The answer to most of these questions is in the hands of the trade association executive. However, a recent survey of the N. A. C. A. proved that little thought has been given to this subject with the probable result that nature will take its course in most industries stipulating cost plus price basis.

### **Production Control and Allocation to Members**

The idea of allocating a given share of the total volume available to an industry or group has been experimented with in different fields with varying results. In all voluntary production agreement movements it has fallen down over a period of time because:

1. The individual unit, even though it received a fair price and pursued fair competitive practices, had no opportunity for improving its position irrespective of how fine the quality, service and development performance might be.

2. There are no definite yardsticks for measuring intangible contributions by individuals for the improvement of the industry as a whole wherefore there should be recognition.

3. The revision of original allocations of shares of available volume is usually through coercive pressure upon the trade association executive who is in large measure supported by the stronger influences.

This method if adopted as a temporary stabilizer is one of the quickest methods for correcting excessive price cuts in cases where excessive inventories and over-production are the current ills. However, the continuance thereof beyond an emergency period brings administrative problems that cannot be solved to the satisfaction of live progressive groups.

### **Control of Capital Improvements**

Many industries, previous to the introduction of codes, regulated capital improvements. The outstanding industries regulating this phase, consciously avoided the complete stifling of technical advancement. The question, always

brought forth over this type of control is—Will technical development be stifled at its source?

The executive school defending the absolute control of capital improvements is usually afraid of immediate obsolescence. The ultimate foolhardiness of carrying such theories to extremes is evidenced in our rail, bus, air and water transportation dilemma. In recent conversations with rail officials it was learned that complete revamping of rail and transportation policies is seriously contemplated. It is confidently felt by the officials of many carriers, with modernization of transportation with such developments as the Diesel-Electric—a complete change in car design and accommodations—that neither bus nor air will be able to compete effectively on a long haul cost basis. This would have been good news to the holders of bonds and stocks a few years ago. It could have been true if the misconceptions fostered through administrative control practices, maintenance of unduly subsidized schedules of rates and the stifling of technical developments had not allowed competing forms of transportation to establish an unwarranted foothold.

#### **Definite Establishment and Control of Price Schedules**

The industries having a sufficiently staple line, that have specified definite schedules of prices, are now facing a series of interesting problems. The questions arising as to what constitutes a fair cost basis has in itself developed situations which require considerable time for adequate solution. Certain codes have practically specified that the highest costs found shall be the foundation for price establishment. Executives meeting to establish prices have been bewildered in most cases because of the lack of cost background of most industries. A group of eight manufacturers sat down recently in an attempt to set prices. Three had actual job order costs, two operated standard costs and three had no definite cost finding methods. The result was that one of the manufacturers, having a good standard cost man and he himself a good trader, was able practically to set his own figures. When they were all through he confidentially admitted that his figures may or may not have been right. There were no records whereby capital, volume and cost relationships could be verified for the industry as a whole, a necessary preliminary to the setting of sound estimating standards for the industry.

The manufacturers are at sea in most industries that are to install uniform cost accounting methods. In some cases, up-to-date manuals have been issued. There are very few instances however, where members can receive authoritative and adequate installation supervision or advice. It is practically impossible to develop an accounting manual for an industry which will fit each constituent member. Such manuals must be adapted to the individual case, contracted or expanded as conditions warrant, without im-



pairing the basic methods or principles desired as uniform practice. This requires a thorough knowledge of costs and real installation skill.

All industries that submitted codes not having a definitely stated basis for regulating competition are beginning to evidence friction and dissatisfaction. This is especially true amongst the smaller members who complain that they are caught between higher current production costs while bucking the competition of larger units that are disposing of stocks built up under pre-code costs.

Companies in industries operating under this type of code are wondering whether they can stand the pressure until a proper hearing and redress can be arranged. Such codes have in most cases been formulated by men having no previous association experience or short sighted, self-interested members who cannot visualize the ultimately detrimental effect of unethical competition. Their cash reserves are still too large.

#### **General Conclusions—Codes**

As a result of analysis of many accepted codes, the reactions of constituent members and intimate contact with the actual administration of trade association activities with different control methods, the following observations may prove of interest:

1. A control of production through proration of a share of volume to constituent members of an industry is a good temporary basis of alleviating current ills but will ultimately discourage initiative unless unusually good executive balance is maintained.

2. Establishment of prices on the basis of the highest costs obtaining, is a dangerous and unhealthy practice inasmuch as levels are artificially raised to cover impossible capital structures and poor management to a point where other industries and developments will divert business from its natural channels.

3. The stifling of technical developments through control of capital improvements cannot be maintained satisfactorily over a period of time. The orderly arrangement of definite schedules and reciprocal trading of ideas as practiced by the automotive manufacturers is good business. It maintains buyers' interest, keeps technical developments alive and generally contributes to improved product without robbing the originator of due advantage.

4. Administration on the basis of cost plus leaves sufficient latitude to constituent members for improving their position without unduly hampering technical development. Such a control cannot succeed, however, unless accurate statistics of costs, orders on hand, production, shipments, inventories and prices are maintained and ably supervised by an impartial executive.

5. Indefinite trade codes will tend to increase rather than diminish unfair competition and will increase the business mortality rate.

The major difficulties experienced by trade groups is a result of suspicion. After years of so called "rugged individualism" the group idea will not sell itself. On top of this, a great many industries have elected officers of constituent members as trade association administrators. Thereafter, few members desire giving out any of their so called "vital statistics." In other cases, information has been passed on to individual members that should not have been released.

However, because of the impetus given to labor, the insistence that labor be organized parallel to trade groups, it will be necessary that members "bury the hatchet" so that their industry will not lose its own representation. Furthermore, it will be extremely important that every manufacturer support his local manufacturers group so that local labor differences may be represented with a united front.

### **The Individual Company**

The problems of individual companies will vary considerably according to their codes. However, certain generalities can be entertained, such as:

1. Companies that maintained volume on the basis of low prices obtained through low wages, long hours and low overhead, must quickly change their line or definitely go out of the picture.
2. The companies that specialized on a few standard items and those having favorable locations, tight capital structures and compact organizations have lost their natural price trading advantages if they are operating with rigid industry price schedules developed on the basis of the industry's highest operating costs.
3. All companies operating under the pro-rated volume plan will have a comparatively poor showing in the long run unless they solidify distribution in their most economical territories stressing the sale of their most profitable lines.
4. All companies operating on a well regulated cost plus basis will have an incentive to do a better job on items that they are properly equipped to handle and will find it essential to further perfect or throw items overboard that cannot be competed for profitably.
5. Alert companies will establish new markets for their products where changes in costs created through codes enable displacement of one product of one industry with another of a different industry where such products can serve the same purpose. (This is exemplified by the cotton and rayon groups.)

In general this means that every major executive in the country is working with a new set of rules and limits. It undoubtedly means that a quick and accurate interpretation of the company's position, followed by definite action in sales, finance and manufacturing, will be the difference

between dividends, losses and grief through misunderstandings. Neither the government nor the trade association executive will or can guarantee the individual companies assets or a return thereon. Constructive and intelligent individual company action, tempered by the best interests of the group as a whole, will assure dividends to the individual and profits to the deserving members.

One concern, realizing the effect of codes upon the costs of kindred products made by a different trade group, successfully established three new lines on a profitable basis. One eastern paint manufacturer who was shipping to Texas, traded accounts with a southeastern manufacturer shipping into the northeast. This resulted in a tremendous saving and profit to both. Closer trade affiliation was the foundation for the move. The concentration by a great many, of distribution into the most economical territories, is resulting in many reviews of present transportation and handling facilities.

To all individual concerns, it is of prime importance that several avenues of investigation be sponsored from the sales angle, namely:

1. Internal market analysis to determine what the company's position is at present considering the codes. Are the proper proportions of the company's profit items being sold to greatest advantage in the most economical sales areas?

2. External market analysis to determine more definitely the effect of codes upon competing industries' products and the possibility for substitution. The development of new products for new markets and usages will be increasingly necessary.

3. A complete review of present territorial arrangement, the desirability and possibility for retaining remote markets, warehousing and delivery facilities noted and all possibilities for improving service investigated.

4. Complete analysis of any and all types of merchandise complaints to determine what possibilities exist for quality improvement.

5. A survey of all accounts to determine their real profitability.

Such surveys have always been good business. To-day they are extremely necessary. The favorite spot for cost reduction, namely the factory, is becoming less plastic. Volume at a sacrifice of profit is definitely discouraged. Major profit, and savings improvement possibilities under such conditions, will be found centering in the selling and financial divisions.

A great many say that the small fellow will be hit hardest. This is debatable for the smaller unit occupies a position which enables a more direct and efficient service. The advantages of personal contact and supervision cannot be overlooked. The flexible special service position which they can occupy is also an advantage. Their continuance in business has not necessarily been a result of low wages and price competition. There are a great many large producers who will be hit harder than many of the smaller units.



Under stabilized trade conditions greater premium is placed on merchandise feature, quality, prompt delivery and customer service, salesmen's personalities and relationships. In all of these, most companies will find a tremendous field for improvement. A great many of the emergency measures of the past few years have left many companies in difficult positions. Some maintained salesmen on the basis of the volume they turned in, irrespective of profit; service facilities were cut to the bone and generally many conditions remain requiring immediate adjustment.

### **Problems of the Financial Department**

The first rush for industrial statistics placed a great burden on many financial executives. Some have looked at this procedure as a necessary evil, whereas a careful analysis of what was submitted might lead to a demand from trade association executives of vital and valuable comparative data for more intelligent operation of the individual company.

The financial division of the business should be represented in trade association activity so that a company may be assured:

1. The establishment of trade costing and pricing practices which will not unfairly handicap the individual.
2. So that a true understanding is obtained, not only in regard to statistics desired by the association but also those that should be given to the individual company. This will result, if properly handled, in giving the company an intelligible basis for cost and budgetary procedures.
3. Representation on cost methods will avoid the establishment of untenable uniform methods and will quicken conformity.

### **Internal Control Problems**

All financial divisions must rapidly place themselves in a position of definitely knowing:

1. The costs of all commodities after full effect is given to recent increases.
2. The effect that territorial retrenchments will have upon distribution costs and profits.
3. A very clear and complete routine for accurately determining distribution costs.
4. A close analysis of the effect of recent increases upon the volume desirability of various items.
5. An evaluation of what different accounts mean to the company.

A much closer type of control should be maintained over factory costs. It will be a duty of the financial division to ascertain:

1. Are the factory foremen and managers equipped with control data that definitely analyzes the cause of allowances such as machine down time, waiting for orders, learners allowances, operator fall downs etc.?

2. Have means, that will not cause labor troubles, been provided for bringing such allowances to a minimum?

3. Is factory equipped with proper time recording devices so that the company is assured that proper allowances are made where necessary and so that maximum hours may be controlled?

4. Has the factory clerical work been analyzed for the reduction of peak loads and the elimination of lost time in the release of shipping papers and information?

5. Have all possible means for reducing factory clerical work, increased through recent hiring, been reviewed?

Recent tax legislation, the necessity for preliminary code statistics and the curtailment in many cases of clerical workers' office hours have not left financial executives very much time to deal with some pertinent organization problems that are creeping in, such as:

The effect of avoidable peak loads is practically doubled if definite schedules of curtailed clerical workers hours are insisted upon.

Records have been established for all of these special requirements that might well be incorporated in the design of routine procedures.

Means for reducing peak loads have not been analyzed fully so that very few can determine what portion is irreducible.

Mechanical accounting and tabulating methods, outside auxiliary services, and the latest clerical effort reduction methods have been overlooked in a great many cases.

Many different methods are being employed for regulating employees' hours so that undue personnel handicaps may be averted. A large thread manufacturer has established a uniform thirty-six hour week. The code calls for forty hours. The four-hour difference is accumulated as a reserve for peak periods thereby giving a flexibility of a week of forty-eight hours each month. Many simply say they will work employees when the work is ahead, and give time off when convenient. The latter policy will inevitably result in misunderstanding and discontent.

Some companies that formerly required employees to ring in on time clocks have eliminated the method. Their thought, it seems, is to avoid evidence of infraction. Legal disputes over maximum hour infractions have resulted in a demand for evidence. Without time cards as supporting evidence, the employer is in a defenceless position.

There are many scientific ways for handling the many office routines and methods. In reviews of the last three years covering over twenty-five good sized offices, a tremendous amount of overtime has invariably been in evidence. Analysis disclosed that only ten to twenty per cent of overtime found is actually necessary. It seems strange that the methods found so

effective in analyzing factory operations and costs are employed to such a slight degree in office work. The codes, if adhered to, will in a great many cases, increase clerical costs far beyond the actual necessity therefor because of the fundamental inadequacy of existing methods.

### Manufacturing Problems

Manufacturing executives contacted can be classified according to their reactions in three broad groups:

1. Those that state labor is in the saddle, technical developments cannot be sponsored at the present and cost reducing activity is at a standstill.

2. The group that is non or semi-committal and say they do not know what will happen.

3. Those that realize the importance of quickly adapting themselves to the new order with the fewest mistakes recognize that every opportunity existing for progressive management is still there with a much higher premium although more difficult and exacting to obtain.

It is interesting to note the reactions of many before and after the introduction of codes. After completing the tremendous initial tasks that have been encountered, it will be in order to review the many possible avenues for readjustment in meeting the new requirements.<sup>1</sup>

### Summary Conclusions

There are a great many changes which will occur that no one can predict. However, there are many definite possibilities, if taken advantage of, will place individual companies as well as their industries in a stronger position. Some unfortunately believe or hope that the codes are a form of subsidized protection. Others believe that the current trend indicates a complete stifling of the capital goods industries. Without constant improvement and development of existing facilities the capital industries will fail. Should this happen, government will have to subsidize the basic industries to the extent of approximately three times the annual volume of textiles, a financial impossibility.

It seems as though "rugged individualism" has been considered the prime cause of our economic ills. On the other hand, it is improbable that the country will slip into a state of "group atrophism." The object of the legislation was to increase purchasing power and at the same time, to avoid ruthless and unintelligent dissipation of capital. Trade association endeavors must be so conducted that the individual company has sufficient latitude for initiative and advancement and withal be able to check completely all forms of predatory competition.

<sup>1</sup> For a discussion of this subject see "What's Ahead of Management Under the Codes," by R. H. Rositzke, *Factory Management and Maintenance*, October, 1933.

The enjoyment of a fuller life by a greater number of people has been a goal of industrial civilization. The voice of the rank and file of people as to its viewpoints has been a cardinal point in our plan of representation. This has been extended to labor in the daily work routine of dealing with employers. How judiciously will this newly found latitude be furthered? How well qualified will labor representatives be to administer their responsibilities? Will their program be statesmanlike; or simply a scramble which will sacrifice all ultimately sound premises for immediate aggrandizement?

Technical advancement has been the keynote of our high living scales. With all the difficulties encountered, our standards of living and modernized comforts still rank as a nation, amongst the leaders. This has been built up through meeting consumers' purchasing ability with highly engineered products developed on the fastest and best available machinery, at a price. Any one of the automobiles in the present \$600 class would have cost from \$3,000 to \$6,000 in 1900. Where would employment and the automotive industry be, were such costs obtaining at present. The question remains—will this process be delayed, and if so, by how many years will we be turning back the calendar? My opinion is that no set back can be anticipated. The U. S. A. has never gone backward.

**STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF MARCH 3, 1933,**

of *The Management Review*, published monthly at New York, N. Y., for October 1, 1933.

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County of New York, }

Before me, a Notary Public in and for the state and county aforesaid, personally appeared C. M. Rice, who having been duly sworn according to law, deposes and says that she is the Editor of *The Management Review* and that the following is, to the best of her knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation, etc.), of the aforesaid publication, for the date shown in the above caption, required by the Act of March 3, 1933, embodied in section 537, Postal Laws and Regulations, printed on the reverse of this form, to wit:

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C. M. RICE,  
Editor.

Sworn to and subscribed before me this 3rd day of October, 1933.

(Seal)

IRMA MULLER  
(My commission expires March 30, 1934.)

## THE MANAGEMENT INDEX

### Abstracts and News Items

#### GENERAL MANAGEMENT

##### Some Aspects of the National Industrial Recovery Act

The NRA is being handled in an intelligent, able, and capable way according to Mr. Stevenson; but there are mistakes being made. He believes that a 40-hour week will not provide sufficient employment to put our unemployed back to work. Mr. Stevenson feels the wage minimums should be raised because he does not believe that in this country men and women can live on such small wages. He urges that each industry in this country be run as a unit, that we should determine very accurately, through proper cost study, what the average cost of manufacturing a certain product is. The cost should, of course, cover adequate wages for labor, proper recompense for management, proper set-up for replacements and depreciation, and should include a fair return on the true capital invested in an industry. The only way to insure fairness of treatment and the preservation of the smaller companies is through the recognition of the principle of proration. *Address delivered by Charles R. Stevenson before the Eastern Division of the National Glass Distributors' Association at Atlantic City, August 29, 1933. 9 pages.*

##### Are New Deal "Isms" and Doctrines Harmful to Trade Groups?

The President of the National Industrial Conference Board points out that the public believes, and the Administration has acted upon the belief, that this depression has been due solely to inherent evils and

defects in the organization and internal operation of the productive industries themselves. The Administration is dominated by this delusion because industry has suffered from the same delusion and has not taken the trouble to ascertain for itself in any organized way the essential facts about the economic situation, to understand them, to make them understood by the public and by government, or to compel action upon them by its concerted power. If we live under political dictatorship today, it is by default of intelligent, organized industrial leadership in the past five years.

We may as well face the fact, he says, that this country is in the grip of forces essentially the same as those which we have seen at work in several other countries since the War. Since the business leaders were quiescent and ignored these forces, it was inevitable that the government should take a hand in the matter. Once the government had acted, business men and trade association executives rushed enthusiastically to rest their troubled heads on the broad bosom of the new bureaucracy and to sign their contracts of partnership in the naive belief that it marked the beginning of self-government in industry—what they failed to comprehend, however, was that, by invoking the external and arbitrary power of a personal government to impose restraints upon their competitor or to destroy him, they opened the way to the imposition of restraints upon themselves which they never contemplated, restraints which would de-



stroy their own initiative and discretion in the conduct of their affairs.

The way out, as Dr. Jordan sees it, involves a three-fold program: First, the gleaning of comprehensive information about the individual phases of our industrial system, not only to pacify the demands of the bureaucracy in Washington but in anticipation of the day when the "Gosplanners on the Potomac" depart in the confusion they have created. Second, the inescapable inter-relationship of all parts of our economic system make it essential that the data for any industry or trade be interpreted and applied in relation to the situation in other industries, in finance, in agriculture, and in foreign trade. Finally, unity of understanding and action must be the ultimate objective of all this effort in each industry and in industry as a whole. "Unless in this crisis which confronts our institutions," he concludes, "we can make that objective cut across all industries and all conflicts of special interest within them, we are lost." By Virgil Jordan. *World Convention Dates*, October, 1933, p. 25:4.

#### **The Association's Non-Member Problem—A Possible Solution**

Virtually every association is confronted with the problem of how to deal with the non-member who refuses to join and to share the burden of expense and responsibility but who is not averse to participating in the benefits. Under the present program for codifying industries, the distinction between members and non-members is wiped out with the single exception that the members pay the bill for administering the code and policing the industry and non-members do not. When approved by the President, the code applies to every unit in the industry and its beneficial effects are felt by all. The statistics gathered by the association for the purpose of studying the effect of the code and for plotting the course of the industry toward greater prosperity must be made available to everyone covered by the code.

Non-members will share equally with members the benefits resulting from the economic planning of an industry, the better balancing of production and demand, the stabilizing of prices, uniform cost systems.

Some form of pressure or inducement must be brought into play which will not violate any law and to which, if possible, the NRA can give its approval, by acquiescence, at least, if not in any more positive manner.

The writer believes such a method would be found in the adoption of an insignia by any association which has assumed the responsibility of administering a code. That insignia should be so devised as to indicate clearly that the user of it has assumed his proper proportion of the responsibility and expense involved in administering the code by joining the association or assuming an equivalent obligation. The use of the insignia would be withheld from non-participants, of course. It should be promoted, made familiar to everyone in the industry and to related industries which buy from or sell to the particular industry involved for the purpose of encouraging everyone to deal only with those people in an industry who are entitled to display its insignia.

In substance, this plan contemplates applying the same principle of using the pressure of public opinion which already has been used by the NRA in connection with the President's Re-employment Agreement. By John F. Sherman. *Printers' Ink*, September 14, 1933, p. 26:3.

#### **Business Now Returns to the Pioneering Phase**

The development of business enterprises, says the vice-president of Brillo Manufacturing Co., usually reveals four distinct phases: the pioneer stage, the expansion period, the consolidation and stabilization phase, and the period of disintegration. The period ended by the depression was one of consolidation, of harvesting the fruits of pioneering and expansion. The balance

normally existing between capital entering the small plant and that entering into the large plant was greatly upset during the last era of prosperity.

"We must sow for a while, building up new enterprises for perhaps another late harvest. But the main thing is to sow; to get back to work and study conditions. In so doing, we shall find many cases which present ideal opportunities for small enterprises." By Crosby Field. *Executives Service Bulletin*, August, 1933, p. 1:3.

#### **We Need Foreign Trade, Too**

Ten years of prosperity during which international trade reached new heights led to an acceptance of the doctrine that no nation could live unto itself alone. Four succeeding years of depression, however, have raised many doubts concerning the validity of this doctrine. As a result, extreme nationalists and internationalists have renewed the age old controversy between the conflicting schools of thought which they represent.

In their extreme form, the author holds that neither policy is desirable. The arguments of the nationalists concerning comparative labor costs and standards of living are shown to have a more apparent

than real significance. "It is," he says, "to the export of finished products, at low costs derived from mass production and highest wages, that we owe in the period 1922-29 our increased export trade and increased standard of living. After the 1920 crisis, it was generally held that revival of our foreign trade was impossible on the existing high scale of wages. There was the same clouded outlook as now, the same counsels of despair. Yet we can look back on a period of unprecedented prosperity in which a record high level of exports was not inconsistent with a high level of domestic prices and a high standard of living." On the other hand, extreme internationalism implies a submission to external authority which is in direct conflict with the declared policy of the United States. The middle course between the two extremes presents, the author concludes, "the only conceivable way out of the present confusion of thought both for ourselves and for other nations." By James A. Farrell. *Nation's Business*, September, 1933, p. 13:3.

#### **Trends in German Business Cycle Policy**

By Wilhelm Röpke. *The Economic Journal*, September, 1933, p. 427:15.

## **FINANCIAL MANAGEMENT**

### **Inflation, Values and Prices**

Although opinions differ widely in regard to the immediate or remote possibilities of monetary inflation in this country, certain fundamental factors which have an intimate relationship to the problem cannot be ignored: 1. An embargo on gold actually exists; 2. the power to inflate has been granted to the President; 3. in certain policies already adopted, inflation appears to be an objective; and 4. important political opinion has expressed itself in favor of monetary inflation as the "way out" of our difficulties.

Without adding further to the contro-

versy over possibilities, the author proceeds to examine the course of inflation in France. He finds that inflation caused a permanent change in price levels and cost of living. New levels thus established were not broken down by the usual influences of depression. In regard to securities, the bondholder was subjected to a double hazard—the decline in quotations and the decline in the purchasing power of the currency. On the other hand, the purchasing power of the stock-holder bore a direct relationship to changes in the cost of living. Common stocks, however, could not be purchased blindly during the per-

iod of inflation in view of the fact that a large number of them decreased in value or showed a smaller percentage increase than retail prices. "Monetary inflation," the author concludes, "neither increases nor decreases the total wealth of the nation. It shifts wealth from one class of person to another. Inflation alters the creditor-debtor relationship by penalizing the creditor to the benefit of the debtor. Theoretically, the position of the property or equity owner is unaltered in the process, although he may expect wide swings in valuations over a short period and an increase in prices as the currency depreciates." By Jabez H. Wood. *Baron's*, September 25, 1933, p. 3:3.

#### Price Control and the NRA

Some of the important devices that have been suggested in proposed codes in order to prevent price cutting are: 1. Permission of contracts between retailer, jobber and manufacturer to provide for price maintenance; 2. Provision that goods shall not be sold below cost; 3. Provision that wholesalers and retailers shall not sell goods at less than a fixed margin above cost price; 4. Provision that retailers shall not sell goods at less than 79 per cent of the manufacturers' announced price (in the drug trade); 5. Establishment of "open prices" with provision that any sale under such prices constitutes an unfair trade practice.

One of the most interesting of these proposals is the provision that goods shall not be sold by wholesalers or retailers at less than a given margin over cost. This is a new thought in connection with marketing—one that has never been given serious consideration before. In many ways, it would be a highly desirable device, especially during a time of emergency. One angle of this question that has not been adequately stressed is the fact that the establishment of any arbitrary minimum margin suggests a continuance of the common fallacy that the cost of selling all

articles in a store is the same. As a matter of fact, the cost of selling individual commodities varies greatly.

Price control is a complicated and difficult task. Past history does not encourage us to believe that the proper balance between prices can be brought about as well through Government price regulation as through the normal workings of economic forces. By L. D. H. Weld. *Printers' Ink*, September 28, 1933, p. 17:4.

#### Glamorous Inflation

Citing instances from the monetary history of France as well as the United States, the author shows that, despite modern refinements in terminology, "many of the arguments commonly regarded as indigenous exclusively to the prevailing situation, enjoyed wide popularity on similar occasions in the past." By Edward T. Collins. *American Bankers Association Journal*, October, 1933, p. 23:3.

#### Effect of the Securities Act on Industrial Financing

After outlining the provisions of the Securities Act of 1933, the author points out that it constitutes a statutory expression of the common law principle of fraud and misrepresentation. In enacting this principle into statutory law, a notable change was made inasmuch as the burden of proof that there was no fraud or misrepresentation now rests upon the defendant whereas formerly the appellant seeking damage had to prove his case. Although the details of the act are subject to considerable and probable modification, the author feels that the principle of imposing standards of fiduciary on the originators and distributors of securities has definitely been initiated as a permanent government policy.

As a result of this act, commercial bankers will probably be subjected to greater demands for capital—capital to be used not in the financing of short-term operations but in the re-equipment and ex-

pansion of permanent facilities. Since the financing of such permanent improvements by commercial banks is in a large measure responsible for our frozen credit structure, the securities act will exert an influence to be resisted by all commercial bankers. "Viewing the law in its larger aspects," the author concludes, "those who will be most affected are after all not the investors of the nation nor even the investment bankers, but industrial corporations, manufacturers, merchants, and others who from time to time need to seek new capital for expansion of their enterprises, or for refinancing. By W. F. Gephart. *Trust Companies*, September, 1933, p. 279:6.

#### Income Taxes and the Depression

The years since 1929 represent the first period of prolonged recession and depression since the inception of the modern income tax movement. The depression of 1920-1921, because of its comparative brevity, did not afford a real test of the effects of sub-normal business activity on income tax yields. Other recessions—for example, 1924 and 1927—were so minor in character that the effects upon public revenues were practically negligible. Under the circumstances an examination of income tax yields in recent years and an appraisal of the significance of declining yields in relation to fiscal problems seem particularly appropriate.

The marked decline in income tax receipts was the most important factor contributing to the huge federal deficits for the fiscal years ended June 30, 1931 and 1932. The declining yields during the depression have affected the finances of the Federal Government more seriously than those of state governments which use this form of taxation—the reason, of course, being that the Federal Government has relied on income taxes for its revenue requirements to a much greater extent than have the state governments.

As far as the Federal Government is concerned, several proposals have been ad-

vanced to equalize the revenue available throughout the business cycle. One contemplates the creation of reserves during periods when the yield from the income tax is high, these reserves to be used as a supplement to the revenue from this tax in periods when the yield declines. In a sense, the reduction of its outstanding debt at a more rapid rate than that required by statute during the decade ended in 1930 constituted in effect the creation of such a reserve on the part of the Federal Government. Another proposal which has been advanced to equalize the revenue of the Federal Government has been the establishment of a more diversified tax system by adopting a general sales tax. If such a tax had been enacted, however, it is questionable whether the retrenchment in unnecessary expenditures would not have been postponed until the rate of the tax had been increased to an unjustifiable extent. *National Industrial Conference Board Memorandum No. 12*, September 15, 1933. 11 pages.

#### Why Bank Credit Does Not Respond

In 1913, the United States was using about the same volume of bank credit as seven other leading banking countries. By 1929, however, so phenomenally had our volume risen that we were employing over twice as much as those seven countries combined. Not wanted for the ordinary movement of trade, the excess credit naturally sought incomes in other employments—in collateral loans, mortgages, and bonds. Instead of remaining liquid, it solidified in the form of factories, machinery, houses, and public improvements, both at home and abroad. Before it can expand this credit must suffer liquidation.

"The origin of the present credit malady," the author concludes, "was in the use of credit, in addition to savings, in the production of capital goods, which are not quickly consumed and which do not quickly repay the debt that built them. Such loans are not appropriate for institutions which owe deposits on demand or

on short notice. But the slow convalescence of credit is due to the continued blockading of trade, which prevents the servicing of debt. Credit does not flow into new loans because only conservative institutions or strict collectors have got it out of the old loans." By Seth Axley. *Barron's*, October 2, 1933, p. 3:2.

### Our Balance of International Payments

The most noteworthy conclusion warranted by a study of the balance of international payments, is the absence of international financial factors necessitating abandonment of the gold standard by the United States. Nor does it indicate that international situations have an important bearing on the question of currency revaluation. Domestic problems, then, have been prime factors in our present continued divorcement from gold, partially verified by insistence on the part of the Administration that the improvement of domestic economic conditions is a prerequisite to the formulation of international policies. This country is now embarked upon a program in which the reconstruction of its own industries, the increase in its own prices and the development of its interior market are primary concerns. Nevertheless, foreign transactions are

shown by the balance sheet to be an integral part of American economic life and it is difficult to see how our own recovery is not interrelated with improvement abroad. *The Index* (New York Trust Company), July-August, 1933, p. 139:6.

### What Inflation Means to You

Inflation means cheapening our monetary unit, the dollar. "Let the government repudiate its promise to redeem paper in a fixed quantity of gold and you will have a decrease in the total desirability of paper, a decrease in the effective demand for it, a fall in its purchasing power, and an inflation of prices as quoted in paper dollars. This is how and why we now have inflation." A little inflation always calls for more unless the inflationist movement is successfully blocked. Owners of insurance policies and savings accounts, all wage-earners and those with fixed incomes are hurt by inflation. There are two ways, according to the author, of controlling inflation. One is the plan for a managed currency, the other is to return to the gold standard with a devaluated dollar. By Thomas Nixon Carver. *New York Herald Tribune Magazine*, October 15, 1933, p. 4:2.

## Insurance\*

### Agent's Liability to the Insured

An interesting court decision was rendered in the District Court of Appeals for California, the case of *Colpe Investment Co. vs. Seeley & Co.*, Agent; and the Appeals Court said that the agent must use reasonable diligence in acting for assured.

The insured claimed that the Agency was employed to keep the property insured to full value and it should be procured upon the terms most favorable to the owners. It was pointed out that the agents did not obtain insurance contracts on the

most favorable terms, therefore, were held legally liable for failure to act in a reasonably competent manner. *The Eastern Underwriter*, August 18, 1933, p. 1.

### Workmen's Compensation Problems

Mr. M. A. Gimbel, Safety Engineer, General Electric Co., Philadelphia, points out that during the period of business recovery, it will take time for employees to get in step with machines, and acquire the mental alertness so necessary to prevent accidents. The shorter work week

\* Insurance abstracts are contributed by P. D. BETTERLEY, Assistant Treasurer, Graton & Knight Co.; Vice-President in Charge of Insurance Division, American Management Association.



and possible extra shifts may precipitate further accident problems.

Another interesting suggestion is the physical examination of employees who terminate their relationship with the employer, as a check on subsequent compensation claims. Mr. Gimbel also has much to say about constant supervisory regulations as an essential to a good accident record. By M. A. Gimbel, *Industry*, July 29, 1933, p. 1:4.

#### California Agents and Brokers Contemplate Public Relations Body

An interesting development on the Pacific Coast is a proposal to formulate a public relations committee to meet with other business organizations which desire to discuss insurance problems. An example of the value of such cooperation was

illustrated in a recent meeting of the Retail Dry Goods Association in San Francisco, and committees representing the Insurance Brokers Exchange and the California Association of Insurance Agents. *N. Y. Journal of Commerce*, October 9, 1933.

Note.—This is a commendable move and quite in keeping with proposals which have been made by the Insurance Division of the A. M. A.—Ed.

#### Unemployment Prevention, Compensation and Relief

This bibliography brings up to date a similar one issued in 1931 and includes entries on company, trade union and public programs. Prepared by Helen Baker. *Industrial Relations Section, Princeton University*, July, 1933. 23 pages.

## OFFICE MANAGEMENT

### Space: Location, Equipment, Arrangement

#### Application of Tabulating Equipment to Property Control

Under the economic stress of the last three years, many functions of management have been curtailed or eliminated, regardless of ultimate future consequences, in order to decrease overhead expense. Among these, property control has been most severely affected. With the return to stabilized conditions, in many cases industry is confronted with the necessity of a complete restatement of property facts and values, in order to regain a sound basis for management. To derive the maximum benefit from the considerable expenditure involved, all available technical facilities should be utilized. Tabulating equipment, while widely used in many other fields for a number of years, has so far found only limited application in the control of fixed assets. The author analyzes the possibilities and advantages of adapting such equipment to this kind of

work. "The adoption of tabulating equipment," he concludes, "is not a cure-all for the problems of property control, which is properly a function of executive judgment. However, in many instances it will prove a valuable tool for better efficiency in the clerical phases of such work and more economical handling of large volumes of accumulated data." By Reinhard M. Fischer. *The American Accountant*, October, 1933, p. 303:2.

#### What Are Your Lighting Costs?

Money saved by cutting the corners on light bills and by failure to provide adequate lighting facilities is money speedily lost because of the decreased efficiency of the employees and the permanent damage to their eyesight.

More and better lighting improves visibility, makes visual work easier, reduces eyestrain and fatigue, and enables a greater proportion of the energy available for

work to be converted into useful work. Increasing the amount of illumination, utilized in accordance with known relationships of lighting and seeing, is the most generally efficacious means at the command of the lighting specialist for assisting vision. Various other factors or refinements in lighting increase in significance as levels of illumination are increased. Many compromises are often made with respect to types of units, systems employed and lamp sizes, yet there

can be no compromise with eyesight. By C. E. Weitz. *System and Business Management*, October, 1933, p. 440:4.

#### A Complete Mechanical Accounting System

A description of the accounting system as applied in a moderate size firm, Joseph Nathan & Co., Ltd. Some of the accounting records are illustrated. *Industry Illustrated*, September, 1933, p. 13:6.

#### Records: Forms, Charts, Cards, Files, Statistics

##### Simplifying Office Detail in the Chain Store Organization

Each of the 10 stores in the retail chain of Kaufman-Leonard Furniture Company is charged with one-half of 1 per cent for maintenance of office headquarters, where in addition to the chief accountant only two girls are required to handle all office and stenographic work. The principal factors in bringing overhead to this minimum point have been elimination of unwieldy detail of accounting, and simplification of printed forms used in the marking, selling and inventorying of merchandise.

Some of the efficiency forms in use at the central office are the purchase record, perforated data card with which all merchandise is tagged in taking inventory, monthly report distributed to store managers, managers' daily report sheet, a comparative report received by managers monthly which details percentages under all classifications, and a single form which serves as original sales slip, conditional sales contract, delivery record and invoice. These are illustrated and described and the procedure explained. By J. J. Kaufman. *Chain Store Age*, October, 1933, p. 65:3.

##### The Art of Dictating Better Letters

The average business man is fifty years behind the times in his dictation. His messages are stiff and stilted. The art of dictating better letters must, like every

other art, be acquired through intelligent application. The writer recommends a critical and analytical attitude on the part of the writer while dictating and impartial scrutiny of carbons. Letters should be simple, direct, and have "that vibrant something that can best be described as the human touch." By Maxwell Droke. *The Office Economist*, September-October, 1933, p. 5:3.

##### Cost Saving by Revision of Clerical Details Is Possible When Volume Falls

The director of budgets, Worthington Pump & Machinery Corporation points out that those departments which appear to be busiest in times of reduced volume are frequently the most fertile fields for curtailment of routine and expense. So long as the elaborate systems of former years are retained, the staff necessary to operate them, together with the various forms and records, must also be retained. If this class of expense is to be brought into line with current conditions it is essential that the system itself be modified to conform with present requirements, both as to current needs and expenses therefor.

He recommends a complete survey of all so-called paper work now being performed in the business, as the most effective way to make a revision of this kind, and outlines the procedure. By F. Klein. *The Iron Age*, September 7, 1933, p. 23:1.

**Organization: Job Analysis, Employment, Pay, Tests****The Efficiency of Efficiency Rating Systems**

Situations which necessitate some method of determining the efficiency of employees are constantly arising in industry. The great advantages of a definite rating system are that the qualities to be observed are determined beforehand and the results of the observation of these qualities are recorded in a systematic manner. The author describes briefly the various rating systems which have been devised. She says, "I feel strongly that the main value of a rating scale does not lie in the descriptions given of the individual qualities of an individual, and still less in any attempt to make an arithmetical sum of them." The value of the rating system

lies in forcing the rater to consider these various qualities so that he does not overlook any of them and then, on the basis of the results obtained, to make a final decision in relation to the problem under consideration.

To the uninitiated many complicated rating scales have an air of impressiveness about them. They look so precise and exact that there is a regrettable tendency to assume that they are infallible. "But," the author concludes, "fallible though they may be, our judgments of our fellows must always be obtained, and such judgment will be greatly assisted by the provision of a carefully constructed and controlled efficiency rating system." By Winifred Spielman Raphael. *The Human Factor*, June, 1933, p. 201:11.

**PRODUCTION MANAGEMENT****General: Promotion, Organization, Policy, Development****The New Deal in Steel**

The steel industry, now that price-cutting is frowned on, faces a new era of quality competition. A new type of salesmanship will be required, a more intimate, practical knowledge of plant requirements, and above all, new uses for steel must be found. By G. L. Lacher. *The Iron Age*, October 5, 1933, p. 9:3.

**Chart Shows Method of Allocating Overhead Expenses**

In an effort to assist manufacturers in determining more accurately the cost of each item produced in each production center of their plants, the Domestic Commerce Division of the Bureau of Foreign and Domestic Commerce has charted a method of allocating manufacturing overhead and distribution expenses. This method was developed as an outgrowth of the Commerce Department's surveys in

candy and other food products industries but it is designed to be used in other industries as well.

Each item of expense under the general heads of building expense, equipment expense, general expense and distribution cost, is allocated to one of the following factors: reproduction value; direct as used; consumption by each machine; production hours; average value of inventory; average cost per order. The chart is illustrated. *Domestic Commerce*, September 30, 1933, p. 94.

**Red Ink or Black?**

During the past three years salesmen have had to meet unprecedented demands for lower prices, better service, and new ideas to attract reluctant dollars—which comes squarely back to better factory methods. Wahl Company possessed a modern plant and organization, but going

on the theory that nothing was so well done it could not be bettered, department after department was analyzed, not once but three or four times, in search for the right answer to current business conditions. In one department alone over \$50,000 was saved. Thus the inquiry begun on account of diminishing sales did not

rest until it had been extended to every activity of the organization with the resultant working philosophy, "Successful selling begins in the plant." The analysis is described by the organization's comptroller. By W. C. Otto. *Factory Management and Maintenance*, October, 1933, p. 387:3.

### Industrial Economics: *Labor and Capital, Legislation, Wage Theory, Immigration*

#### Design for Government

"Our economic course," Professor Tugwell states, "has carried us from the era of economic *development* to an era which confronts us with the necessity for economic *maintenance*." He reasons that the modes and forms of regulation which were developed in the past are no longer applicable to modern conditions and that the government must now intervene in other ways to conserve and maintain the industrial system which has been developed. The competitive system, he states, was supposed to act as an invisible hand which beneficently guided warring business men to the promotion of the general welfare. The shattering of this illusion now imposes on government a responsibility to supply a real and visible guiding hand which will do the task that the mythical, non-existent, invisible agency was supposed to perform, but never did. The assumption of this responsibility by the Administration brings it into conflict with two legal dogmas, one of which regards government as nothing more than a policeman and the other jealously guards the "checks and balances" which have characterized our form of government. Professor Tugwell concludes, however, that a central government with an undisputed right to enforce cooperation in our economic life, together with an executive empowered by legislative delegation are the only means of escape from our present dilemma—the only means which will carry us forward to the realization of

our vast social and economic possibilities. By Rexford G. Tugwell. *Political Science Quarterly*, September, 1933, p. 321:12.

#### Union Scales of Wages and Hours of Labor in 1933

Union scales of hourly wage rates in May, 1933, as compared with May, 1932, showed 13 increases, 278 decreases, and no change in 394 cases, according to information collected by the Bureau of Labor Statistics. Full-time working hours between the two dates had increased in 17 cases and decreased in 67, while in 601 instances there had been no change. *Monthly Labor Review*, September, 1933, p. 660:51.

#### Italian Fascism As a Political and Economic System

In its origin Fascism was an intensely nationalistic movement, and it owes its power primarily to the ability of its leaders to arouse the spirit of militant nationalism among the people. As an economic and social system, Fascism is still in the experimental stage. The Fascist State has discarded parliamentary democracy and liberalism, but has retained the principle that private initiative is the most effective method of production. The aim of Fascism is to permit the exercise of private initiative in the production of goods and services under strict supervision and control by the State. In other words, Fascism represents a compromise between liberal

capitalism and state socialism. The fact that the Government possesses the power of intervention in business affairs and that the Government is the sole judge of the circumstances under which intervention is necessary tends undoubtedly to limit the free exercise of private initiative.

Under the corporative system, the conflict of interests between employers and workers has not been eliminated. The Fascist State simply prohibits strikes and lock-outs as tangible expressions of that conflict. Under the Fascist system, neither the employers nor their employees have any rights. The State alone, as typified in the Fascist Party, has the right of settling differences between conflicting economic and social interests.

Fascism has been described as a dictatorship of the Right. Thus far, the description seems to be justified, but it is impossible to say at what stage of its development Fascism may find it necessary to identify itself with the labor movement, which, although in Italy it has been forced to discard the theory of class warfare, has not discarded the theory that all classes are equal, in the sense that the present differences in incomes, wealth, and social position should be eliminated. *National Industrial Conference Board Memorandum No. 11*, September 8, 1933. 13 pages.

### Can Competitors Destroy a Liberal Labor Policy?

A discussion of the economic and competitive forces which have a dominating influence in shaping the development of an individual company's personnel program.

One might assume that the high profit industries would pay the highest wages and spend the most for employee activities. Yet the actual figures fail to support this assumption. Wage rates depend, rather, upon the skill required for the job, the rates in the community and the bargaining strength of the employees.

The effect of an industry's profit stability on personnel management is less obscure than that of the size of profits, but by no

means entirely clear. A rapid shrinkage in earnings, whether or not it is relatively greater than that experienced by competitors, generates tremendous pressure on the individual company's management to reduce variable costs, among which labor is a conspicuous target. It is in the more stable industries, therefore, that employees tend to suffer least from wage cuts and lay-offs.

The relative importance of labor, material, and fixed overhead is further considered in this discussion of the hidden factors that influence personnel policies "more than all the good intentions in the world." Companies studied include American Rolling Mill, Procter & Gamble, E. I. du Pont de Nemours, Eastman Kodak, General Electric, Studebaker Corporation and others. By C. Canby Balderston. *Forbes*, August 15, 1933, p. 6:5.

### A Study of the Hours of Work and the Rates of Pay of Cement Workers

An interpretation of statistics relating to the wages and hours of labor in the cement industry in their relation to the problems arising in connection with the NRA. By H. Herbert Hughes. *Pit and Quarry*, September, 1933, p. 20:3.

### Social Consequences of Prolonged Unemployment

An analysis of five hundred cases. By Jessie A. Bloodworth. *University of Minnesota Employment Stabilization Research Institute Bulletin No. 5*, August, 1933. 16 pages.

### Employment During the Depression

Since 1929, employment in the financial, clerical, public utility and service lines has manifested greater resistance to depression than in the underlying industries engaged in physical production and transport. Transportation and manufacturing have fared better than the extractive industries, while construction has suffered most severely of all.



In manufacturing, the eastern seaboard generally has fared better, relatively, than the inland districts. Industrial employment in the agricultural states has suffered heavily, but less heavily in general than in the industrial states of the mid-west. The durable goods industries, always less stable than those producing more perishable commodities, have experienced severe declines, while foods, leather, printing and textiles have shown greatest resistance among the major groups.

Employment shrinkage must not be confused with volume of unemployment, though the employment decline of the current depression is the most significant single indicator of unemployment. The term technological unemployment is probably a misnomer, but technological displacement is real enough, taking the form of a shift in the type of worker required in a given industry, bringing about temporary or permanent reduction in the number of workers required, or perhaps affecting the identity of the employed without affecting their number. It is possible that reduced employment in many existing lines may be revealed as permanent following this depression. In that event, new types of private and public enterprise must develop or be stimulated in combination with plans for shorter hours, earlier compensated retirement and various devices to reduce at

the margins the numbers of those normally seeking gainful employment. By Meredith B. Givens. *National Bureau of Economic Research Bulletin No. 47*, June 30, 1933. 5 pages.

### "The Labor Injunction"

Using Frankfurter and Greene's book\* on the subject as a point of departure and a source of illustrative material, the author discusses and appraises the economic implications of the labor injunction. "There can be no question," he states, "that from the standpoint of the public interest, the machinery of equitable relief by injunction has worked badly in the field of industrial disputes. Sometimes it has worked badly because it has wrongly interfered with the legitimate activities of organized labor and with the rights of workpeople. Sometimes it has worked badly because it has been quite ineffective—a pointless, useless, expensive ritual." He outlines the controversy which this ancient legal instrument has raised between employers and organized groups of workers, pointing out the latter's objections to the injunction and their methods of combating it. By P. F. Brissenden. *Political Science Quarterly*, September, 1933, p. 413:38.

\* "The Labor Injunction," by Felix Frankfurter and Nathan Greene. The Macmillan Co., N. Y., 1930. 343 pages. \$5.00.

### Shop Methods: *Industrial Engineering, Standardization, Waste, Rate Setting, Time and Motion Study*

#### Plant Maintenance Recording

A description of a method to determine the value of a machine, and when repairs may be expected. The steps in the plan are: 1. Permanent identification tag on all apparatus; 2. Card record of the apparatus as originally installed; 3. Record of maintenance costs; 4. Yearly record of actual versus estimated records. The plan is illustrated. By Robert L. Holliday. *Chemical Industries*, October, 1933, p. 313:3.

#### Bibliography of Time Study Engineering or Time Study, Motion Study, Wage Incentives and Fatigue in Industry

This bibliography is divided into the following main headings: Time Study Practice, Time Studies as Applied in Specific Instances, Applications of Time Study Information, Wage Incentive Systems, Fatigue. A subject index and an author index are included. Compiled by the Society of Industrial Engineers. *H. W. Wilson Company*, 1933. 63 pages.

## Employment: Classification, Selection, Tests, Turnover

### Survey of Personnel Changes in Industrial Research Laboratories—1930-1933

The National Research Council has compiled comparative personnel statistics which show that during the depression 1455 laboratories out of 1625 reporting in 1930 decreased their staffs 35 per cent

between 1931 and 1933. On the other hand, nearly 44 per cent maintained their personnel intact and about 13 per cent showed an increase. A series of six tables illustrates personnel changes. By Dr. Clarence J. West and Callie Hull. *Research Laboratory Record*, September, 1933, p. 154:5.

## Research and Experiment

### Industrial Research Laboratories of the United States

The fifth edition of this bulletin contains data regarding the effect of the past three years upon the research staffs of the laboratories reporting. Of the 1625 laboratories listed in the previous edition, approximately 110 reported that research work had been temporarily or permanently discontinued, 25 reported that they had been combined with other existing laboratories. About 170 laboratories have been included for the first time, although this does not mean that these laboratories had been established since the last bulletin was published. Compiled by Clarence J. West and Callie Hull. *Bulletin No. 91, National Research Council*, August, 1933. 223 pages.

### Scientific Research of a Fine Chemicals and Pharmaceuticals Company

The Director of Pure Research of Merck & Co., Inc., lists six reasons why research should be undertaken by companies engaged in manufacturing fine chemicals and pharmaceuticals: 1. Manufacturing processes are continually becoming obsolete and, unless new ones are developed, a company may be forced by competition to suspend operations. 2. Research on methods of packaging and preserving chemicals is very necessary if a competitive standard of quality is to be maintained. 3. Research must be conducted to discover methods of improving the purity and quality of the chemicals that are made to meet the

precise requirements of medical and scientific purchasers. 4. It is necessary to conduct researches which have for their object the discovery of new uses for the company's products. 5. The research staff should ever be studying the fundamental chemical and physical properties of the company's products. 6. Research which has for its object the discovery of new products is as necessary a function of a research program as that relating to existing products of a company. By Randolph T. Major. *Research Laboratory Record*, July, 1933, p. 136:3.

### Developing a New Product—A Method of Procedure

The president of The Hoover Company describes in detail a research procedure based upon methods that have been used with success in his company. He outlines the many and varied contacts an engineering department should make in order to develop a new product, emphasizing their importance and pointing out that recent years have drawn attention to the need for better methods in research, as well as in many other lines of business activity. A chart is reproduced and explained which shows the progress of an assignment through the development stages to actual delivery of salable articles to finished stores.

It is pointed out that the measure of success obtained by an engineering department in such an undertaking is predicated to a certain extent upon its appreciation

of the benefits to be derived from the evaluation of information that can be gathered from associated sources. The establishment and maintenance of harmonious relations with the various company departments capable of supplying this in-

formation, and correct interpretation of data received as a result of these contacts are looked upon as responsibilities of the engineering department. By H. W. Hoover. *Executives Service Bulletin*, September, 1933, p. 3:4.

## MARKETING MANAGEMENT

### Distribution—The Key to Profits

For many years it was taught that the salvation of business depended more or less entirely upon the greater volume to be achieved by mass production. Distribution, a neglected factor in our economic life, is now coming into its own and there is an encouraging realization on the part of business leaders that it deserves the same type of intensive, scientific study that has been devoted to production. If distribution can be brought to the same state of coordination and efficiency which characterize our manufacturing processes, a great step forward will have been taken. That the difficulties involved are much more uncontrollable than those encountered in production cannot be disputed; but, in view of the fact that fifty cents out of every business dollar is spent to transport the commodity from the producer to the consumer, there is ample means to reward effective efforts. By Rudolph Neuberger. *Industry*, August 26, 1933, p. 1:3.

### Quality Standards Are Demanded

The formation of a Committee from Government and other standard-setting agencies, charged with planning a better utilization of their facilities for the consumer's benefit has been announced by the Board. It also demands that provisions be included in the codes for setting up quality standards to be maintained by the code authorities. The Board's representatives are instructed to challenge at the hearings any code which does not specifically:

"1. Prohibit as an unfair trade practice

in setting up a routine for obtaining facts for sales analysis, before it came to the plan outlined in this article. The plan is founded on the use of calculating machines and pegboards.

There are two distinct parts of this record operation—one concerned with sales analysis by customer—in this case a wholesale druggist—the other concerned with sales analysis by salesman or territory. These must be described separately. They do not intermesh in the record department. But the mechanisms by which these statistics are produced are essentially similar.

The procedure is explained in some detail and forms used are illustrated. Handling a tremendous number of individual transactions spread over a large number of items and through a great many wholesale and retail outlets, Eli Lilly have found false marking, branding, advertising, etc., which has a tendency to mislead prospective buyers as to grade, quality, quantity, substance, nature, origin, size, finish or preparation of any product;

"2. Provide either for the use of standard size containers and of quality standards in the marking, branding, etc., if such standards are now in existence and recognized as adequate, or for the development of such standards in cooperation with the Bureau of Standards, and their use before a date to be specified in the code." *Domestic Commerce*, October 10, 1933, p. 103.

### How Simple Factual Analysis Gives Us Real Sales Control

Eli Lilly & Company experimented with various methods and types of equipment

that they obtain economically, accurately and promptly all of the factual data required to permit the sales department to exercise close control over all of their distributional activities.

This method gives the company exactly the information formerly obtained by other methods, but with a far greater guaranty of accuracy, since it affords the cross-check that comes from footing and cross-adding on the pegboards, and checking one set of totals against the other. Moreover, savings in operating expense of \$13,000 a year have resulted from the use of this method. By C. F. Eveleigh. *System and Management Methods*, August, 1933, p. 348:3.

#### What of Selling Under N.I.R.A.?

In general, the orderly relationships in business that the Recovery Act is expected to bring should benefit all elements concerned with selling and merchandising. While radical changes in established practices and procedures are not now in evidence, we must not overlook the possibility of profound changes in the long run. Reviewing the expected effects of the Act on sales activities, and the looked-for advantages in the way of production, selling and buying economies, the Director-General of the Wholesale Dry Goods Institute

declares that the new partnership "means fundamentally the substitution of order for confusion in relations between the different links in the distribution chain." By Flint Garrison. *Executives Service Bulletin*, September, 1933, p. 1:3.

#### Piggly Wiggly Operators Outstep the Depression

The vice president of Piggly Wiggly Corporation describes two outstanding developments which mark the records of this organization during the past year—the continued advance in opening large deluxe markets in new and old territories, and the remodelling and enlargement of old stores, with resulting large sales per unit per month; and the stepping up of operating and selling methods and advertising promotion to meet tough conditions during the first seven months of this year, with operators more alert to find ways to keep up dollar volume and to reduce operating expenses in the face of declining prices and declining purchasing power per customer.

A third of all the Piggly Wiggly stores of the country have recorded dollar-volume increases for almost every month so far in 1933 over the same months of 1932. By J. J. Slattery. *Chain Store Age*, (Grocery Edition), September, 1933, p. 16:4.

### Salesmen: Selection, Training, Compensation

#### Planning Salesmen's Contests That Click

A delineation of the following common factors to insure success in organizing salesmen's contests: 1. Contest theme: the "game" type of contest usually proves most efficient; 2. Duration of contest: a survey shows the two-months' period the favorite schedule; 3. Division and award of prizes—care should be taken that each salesman be made to feel that he has an opportunity to get some prize; 4. Prevention of the after-contest slump—it is essential that the home office executives de-

vise new ways to keep up enthusiasm in the salesmen. The plan is outlined in detail. By E. B. Weiss. *Advertising & Selling*, September 28, 1933, p. 19:4.

#### Appraising Salesmen

The Vice-President of the General Hardware Corporation describes the means whereby the customers of his company were enlisted to appraise the company's salesmen who called upon them. Reports from several customers covering the same salesman showed an impressive uniformity of opinion concerning the strong and

weak points of a particular salesman's technique. On the basis of these reports, letters were written to the company's salesmen setting forth their individual weaknesses and suggesting means of correcting them. By Charles G. Crabb. *Printers' Ink*, September 7, 1933, p. 3:3.

#### Keeping Good Men Good

The Crown Drug Company employs a "personal investigator" whose work is to become acquainted with the home, the family and the outside activity of every Crown store employee. His most important duty is to determine what the employee's expense is to his earnings. When his current expenditures exceed salary it is surmised that he is either getting so deeply in the hole that temptation to climb out at his employer's expense will be ever present, or he is already making up the gap by some dishonest method of adding to income. Information obtained by the investigator is thoroughly checked.

The improvement this organization has been able to make as a result of the investigator's work is such that the Company would not now be without such a

service. By C. M. Watkins. *Chain Store Age*, (Druggist Edition), September, 1933, p. 66:2.

#### Chart Rates "Success Chances" for Prospective Salesmen

In an effort to develop a better technique of selecting new agents, a personal rating chart, now being tested by the Guardian Life Insurance Company was evolved. An analysis made of the performance, over a six-year period, of 22,000 life insurance agents forms the basis of the "ideal" set-up. The chart itself is a simple printed form designed to grade men on their qualifications for life insurance selling in terms of tangibles rather than intangibles. By Bruce Crowell. *Sales Management*, September 1, 1933, p. 213:2.

#### Making Sales Training Interesting

The training director of Luckey, Platt & Co. (department store) discusses a training program that will keep employees enthusiastic and produce definite sales results, and presents an outline for a sales meeting. By Charlotte Kerr. *The Merchandise Manager*, August, 1933, p. 25:3.

### Sales Promotion: Letters, House Organs, Advertising

#### Sonotone Sales Hit New "High" Under Specialty Sales Plan

Against the competition of a dozen older companies the Sonotone Corporation grew in three years to be probably the largest of all hearing-aid sales. The reasons for this progress are the development of a needed product and an effective sales plan.

Realizing that certain solids conduct sound better than air, Sonotone broke away from the old method of "air conduction," and introduced the first portable "bone conduction" type of hearing aid. In the belief that hearing aids require a high degree of personal service to insure satisfaction, a specialty sales organization was developed, which now numbers 462 retail

salesmen, and which is constantly growing. The sales plan is outlined. By Lawrence M. Hughes. *Sales Management*, October 1, 1933, p. 306:3.

#### A & P's New Coffee Packages

The Great Atlantic & Pacific Tea Company has made sweeping changes in the packages of its three coffees after careful planning toward their major objectives: To create new designs that would have a greater selling appeal to new customers; to build a family resemblance in the coffee family; to back up the idea that A & P uses in selling its coffee, that price is not the measuring point of coffee quality. Every step taken in the redesign was elementary and essential to any soundly



planned design change. The plan is outlined. *Printers' Ink Monthly*, October, 1933, p. 17:2.

### **Sunkist Film Moves Quantities of Fruit for Growers Exchange**

Through the use of sales films, Sunkist visualizes to the trade, in picture and word, important merchandising messages, on how to buy, price, display and sell Sunkist fruits. The films can be secured by dealer service men for scheduled meetings. In a number of cases the showing of the film either inspired or aided special sales of Sunkist products in which new high records were set in volume of fruit sold during a given period. By W. B. Geissinger. *Sales Management*, September 1, 1933, p. 218:2.

### **How to Check the Factors That Control Advertising Response**

The estimated capacity of each factor in an advertisement to influence response is stated as: text, 50 per cent; illustration, 10 per cent; layout, 10 per cent; headline, 10 per cent; identification, 20 per cent.

The executive head of a well established agency which specializes in keyed advertising and traced returns expressed to the author his belief that every agency can well afford to take infinite pains to learn the differences in attention value of all

the component parts of an advertisement, but that most important of all is what you say in the body of the copy. A chart is illustrated which shows the increased returns from using each factor effectively. By William T. Laing. *Printers' Ink Monthly*, October, 1933, p. 15:4.

### **The Forgotten Code**

The consumer is the only person without a Code and for him or her there can be no mechanically created Code. The Code for the consumer is a problem in practical psychology. The Consumer Code must be one that will take into account the necessity for the awakening of hope, joy, demand for fun, pleasure and comfort in the minds and feelings of the people who must buy the goods created by industry. America must substitute fun for worry. That is the Forgotten Code and it lies in the hands of the advertisers to change the frame of mind of the consumer from one of worry and fear, to the hopeful, carefree mood "for the purchase of those things—nonsensical or otherwise—which makes people want to spend money for things that can give them comfort, pleasure, fun and laughter." By Kenneth Collins. *Proceedings of Third Annual Retail Conference held under the auspices of Pennsylvania State College, August 21, 22, 1933*, p. 24:5.

## **Retailing**

### **Functions of NRA Consumers Advisory Board Outlined**

Protection of the ultimate consumer and each business group involved in the distribution of goods against unreasonable prices, lowered quality of goods, and the harmful effects of cut-throat price competition, are objectives of the Consumers Advisory Board of the National Recovery Administration, according to a recent announcement. A long-range program of consumer education is also given as a major aim of the Board.

The Board expands the common conception of the consumer as the last buyer and user of goods into "a working rule that the consumer is the buyer at every stage whether it be a producer buying raw material, a jobber buying finished goods, or an individual buying for his own consumption. This conception, the Board holds, is necessary to watch the buying process at points before the product gets into the retail market, in order to check possible pyramiding of profits all along the line." *Domestic Commerce*, October 10, 1933, p. 103.

### Books Received

**The Siegfried Plan for Better Times.**

By Thorwald Siegfried. Wigwam Press, Los Angeles, Cal., 1931. 129 pages. \$1.00 (paper); \$2.50 (cloth).

**There Is This About Letters.** A collection of lectures delivered before the Six O'Clock Club "60". Gerding Publishing Co., St. Louis, Mo., 1931. 272 pages.

**Proceedings of the 1931 Annual Conference of the Life Office Management Association,** Fort Wayne, Ind., 1931. 270 pages. (\$5.00 a copy to non-members.)

**Shipment of Samples and Advertising**

**Matter Abroad.** By Roberta P. Wakefield and Henry Chalmers. U. S. Department of Commerce, Washington, D. C., 1932 (revised edition). 377 pages. \$1.00 (buckram).

**Applied Personnel Administration.** By J. E. Walters. John Wiley & Sons, Inc., New York, 1931. 338 pages. \$3.00.

**A Political and Social History of England.** By Frederick C. Dietz. Macmillan Company, New York, 1932 (revised edition). 786 pages. \$3.25.

## Survey of Books for Executives

**Germany Enters the Third Reich.** By Calvin B. Hoover. Macmillan, New York, 1933. 243 pages. \$2.50.

In this book Professor Hoover explains the historical background of the Hitler movement, follows in detail its spectacular development, and surveys its aims and probable influence. The triumph of the Social Democrats, their overthrow by the National Socialists, the difference between these two parties, the curious theory put forth as to the reason for persecuting the Jews, are all shown against a background of Hitler's dramatic performances. The Hitler party, according to the author, is neither the creature of the Junkers nor of the industrialists. It is truly a mass movement. Its strength is with the ruined aristocracy, the overburdened lower middle class, the discontented peasants, and the youth of the university. The hostility of the German people to the existing economic system, together with their hatred for the Treaty of Versailles, were the causes for the coming to power of National Socialism. It is the goal of the National Socialist Party to build a nation accustomed to the use of arms, warlike in spirit but disciplined. The youth of the movement are trained in the belief that Germany is hated by all the

nations which surround her and have stolen her territory. "The fanaticism of both the leaders and the masses of the Party is a serious obstacle to the successful development of the economic system in Germany under National Socialism." The opportunity for economic development depends upon the maintenance of peace with other countries and in this direction the prospects are not bright.

### Social Security in the United States—

1933. American Association for Social Security, New York, 1933. 123 pages. \$1.00.

The proceedings of the Sixth National Conference on Old Age Security held in New York, May 18 and 19, 1933. The following papers, among others, are included: Old Age Security Progress in 1933, by Abraham Epstein; The Middle-Aged Worker—His Chances in Industry, by Solomon Barkin; Latest Administrative Problems in New York, by Richard Cadbury; What New Jersey's Experience with Old Age Security Reveals, by J. E. Alloway; Three Years of Old Age Security in California, by Olive E. Henderson; Latest Developments in Industrial Pensions, by E. D. Hackett; The English Sys-

tem of Social Security, by Dr. George F. McCleary; The Need for Social Security, by Fiorello H. LaGuardia; Will Industry Provide Security? by Professor William H. Leiserson; Misconceptions of European Unemployment Insurance, by Dr. Eveline M. Burns; Unemployment Insurance vs. Unemployment Reserves, by Abraham Epstein; The Need for Health Insurance, by Dr. Louis S. Reed; The English System of Health Insurance, by Dr. George F. McCleary.

A census of old age security in the United States is also recorded.

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**The Power Age.** By Walter N. Polakov. Covici, Friede, Inc., New York, 1933. 247 pages. \$2.00.

We have outgrown the technique of the Machine Age. A new production technique, power production, characterizes the new Power Age. The Power Age is distinguished from the past Machine Age not merely by the magnitude and speed of production, but by new characteristics which make it different not in degree but in kind from any preceding era. The world today, according to the author, is suffering from a fundamental lack of understanding of this essential fact—that the present methods of power production are not an extension of, but a wholesale scrapping of Machine Age technique and Machine Age economics.

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**Retail Merchandise Control.** By John W. Wingate. Prentice-Hall, New York, 1933. 478 pages. \$5.00.

It is the function of merchandise control to bring about the adjustment of stocks to existing customer demand. Professor Wingate points out that this control involves the coordination of selling with buying, and the manipulation of the stock investment to make a profit. The book discusses the mechanics and details of making merchandise plans and of computing open-to-buys, initial markups, and unit buying plans with examples of each principle suggested.

**American Labor and the Nation.** Edited by Spencer Miller, Jr. University of Chicago Press, Chicago, 1933. 220 pages. \$1.00.

This series of radio addresses is "an attempt to present for the average citizen a record of Labor's contribution to American life together with a statement of the point of view of Labor on current economic problems." The volume is divided into two parts; the first ten addresses deal with the historical development of American Labor and the second ten are devoted to a consideration of current Labor problems. William Green, Mathew Woll, John P. Frey, Victor A. Olander, Frank Morrison, Daniel Tobin, Philip Randolph and Paul Scharrenberg are some of the contributors.

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**Credit and Peace.** Feliks Mlynarski. Macmillan, New York and London. 1933. 92 pages. \$1.25.

The author of this book attributes the unprecedented dimensions of the economic crisis to the excessive expansion of credit, fiscal burdens and the general (particularly American) mercantilism. He considers that the main problems to be tackled are: the reform of long-term credit, the reform of central banking, and the reform of budget policies of public bodies. Main emphasis is laid on the reform of long-term credit methods, as the author regards the fixed rate of interests as a destructive anachronism. He also deals with the problem of the legal devaluation of currencies in the debtor countries, as well as with the general restoration of the gold standard.

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**Qualitative Credit Control.** By William E. Dunkman. Columbia University Press, New York, 1933. 345 pages. \$3.00.

In this study of the nature of credit and the credit system the author criticizes the various proposals for price stabilization through banking policy and offers a program of credit control based on credit and banking theory, and credit analysis.

Part I is devoted to a discussion with a theoretical analysis of the factors underlying the study of credit, money, prices, and banking. The concept of "the value of money" is the central theme. The nature of the "supply of money" and the "demand for money" are found to have been incorrectly analyzed in many discussions, owing to a lack of differentiation between gold, credit, credit instruments, and fiat money.

Part II contains a review of the objectives and methods of quantitative credit control and an analysis of the effects to be expected from controlled alterations in the size of the reserve basis.

Part III is an attempt to estimate the value of the gold standard by interpreting, in the light of the principles of clearance, changes in the reserve base resulting from gold movements, and a discussion of the theoretical basis. The main outlines of the technique of qualitative credit control are given.

The final chapter considers the instruments, agencies and difficulties of this type of credit control.

**The Federal Reserve Act.** By J. Laurence Laughlin. Macmillan, New York, 1933. 400 pages. \$3.50.

The first part of Professor Laughlin's study is largely autobiographical, setting forth his experiences in seeking nationwide banking reform after the panic of 1907 and prior to the passage of the Federal Reserve Act. His comments are interesting, not only for the light they shed upon the theory and practice of banking, but also for their comprehensive analysis of practical politics at work.

In the second part of his study, Professor Laughlin concentrates his attention upon our current monetary and banking problems in an effort to rectify popular misconception regarding the nature and purpose of credit as well as the relationship of a medium of exchange to the standard of value. He is decidedly not in sympathy with current proposals to restore the 1926

price level. "It is one thing," he says, "to provide a supply of the medium of exchange sufficient for the needs of trade, elastic in quantity under an efficient system of redemption, so that prices may be left to normal causes such as costs; and it is quite another thing consciously to expand the currency so as to depreciate its value, lower the standard of prices, and thereby raise all prices measured in that unit. Thus to raise prices would destroy the adjustment between demand and supply and in the end bring on an upheaval which would cause instability in costs, wages, and materials, and an uncertainty in production that would bring on unemployment."

J. E. H.

**Human Aspects of Unemployment and Relief.** By James Mickel Williams. University of North Carolina Press, Chapel Hill, 1933. 235 pages. \$2.50.

Industrial depressions bear down cruelly upon thousands of normal individuals who are forced to join the ranks of the "new poor." The author marshals his array of telling facts and cases throughout the first part of the book to show the aloof "City of the well-to-do" how the "City of the poor," especially its children, has actually fared since 1929. Lives have been warped, nerves shaken, morale shattered and health impaired. The book is a refutation of the belief of those individuals with "a sense of social superiority and financial security" who have declared that the only reason men are unemployed is because they really do not want to work. The second half of the book treats relief methods used by public, private, religious, and educational agencies. In addition to employment exchanges, unemployment insurance, public works, and economic planning, the author favors able state relief administrations, possibly aided by federal funds, to supervise the local administrations in their plans for work and food relief adopted "with an eye especially to the welfare of infants and children."

E. D. HAWKINS